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SUSPENSE 7 May
Date

Remarks:

Direct reply please with info this office.

Executive Secretary

5 May 1982

Date

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Department of Energy
Washington, D.C. 20585

MAY 3 1982

MEMORANDUM FOR Ernie Chase
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Department of Treasury

Alan Larson
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Henry Nau 395-6961
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Old Executive Office Building

FROM: George Bradley
Principal Deputy Assistant for
International Affairs

SUBJECT: Versailles Summit: Clearance of Draft Briefing Papers for President's Briefing Book for June 4-6, 1982

Attached are the first cleared drafts of the papers assigned to DOE for the President's briefing book for the Summit. In some instances, agency changes may not be reflected because they were submitted too late. Please provide by May 7, any comments you wish to have incorporated into the final version to Carol Lee 252-6383, Room 3H-055, Forrestal Building.

Attachment

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Department of Energy
Washington, D.C. 20585

MEMORANDUM FOR Marshall Casse
Special Assistant to the Under
Secretary of State

Attached are the first cleared drafts of the papers assigned to DOE for the President's briefing book for the Versailles Summit, June 4-6, 1982.

Benard C. Rusche

Benard C. Rusche
Special Assistant to the Secretary
for Programs and Policies

Attachments

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SEPARATED FROM CLASSIFIED ENCLOSURES

U.S. SUPPLY DEVELOPMENTS

I. Administration Policy and U.S. Energy Supply

The positive response of U.S. petroleum markets to the immediate decontrol of oil decision in January 1981 strongly supports the free-market approach to energy policy advocated by this Administration.

II. Essential Factors

Decontrol of oil and removal of the Entitlements Program eliminated subsidies for U.S. oil consumption and oil imports and encouraged domestic oil exploration and production. Lower U.S. oil imports contributed to lower demand for OPEC oil and lower world oil prices. Most foreign governments strongly support the decontrol decision.

III. Key Points

Since decontrol in January 1981, U.S. oil drilling activity has been at an all time high (although recent drilling activity is lower), domestic oil production remained flat instead of declining at over 200 thousand barrels per day as previously expected and world oil prices fell by over $4.00 per barrel and gasoline prices by about 14 cents per gallon.

Point--The improvements in the U.S. oil market result more from the doubling of world oil prices in 1979/80 rather than the decontrol decision.

Counterpoint--The oil price increases in 1979/80 created a high potential motivation for action. Oil decontrol released that potential by allowing consumers and producers to make production, consumption and spending decisions based on market price expectations without cumbersome government interference. Decontrol also has allowed innovations in marketing and use.

Point--The Reagan Administration decontrol decision only speeded up what was already well underway from the Carter Administration.

Counterpoint--President Carter deserves a lot of credit, but the Reagan Administration's forceful move to decontrol oil and clearly stated objective of allowing markets to work eliminated any doubt about the possibility of future price controls and so allowed producers to invest now in drilling and production activity knowing that free-market prices would prevail in the future.

Point--While decontrol may have helped increase conventional oil production, low world oil prices are slowing down investment in U.S. synthetic fuels.

Counterpoint--A market reliance strategy will assure that investments are made on the basis of price and profit expectations not political expectations. Recent price trends may slow down private sector investment in synthetic fuels since conventional fuels are likely to be more economically attractive. The Synthetic Fuels Corporation is continuing to consider financial assistance to aid appropriate synthetic fuels development to expand synthetic fuels production as needed.

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STOCKPILING

I. Issue:

The United States has emphasized on numerous occasions that primary reliance on market forces together with high levels of strategic stocks for discretionary national use are the best means for dealing with future oil supply disruptions of whatever proportion. The United States has remained strongly opposed to any formal stock drawdown arrangement coordination, such as that proposed by Italy and France, to counter the effects of minor supply disruptions. These same countries have attempted to link discussions of increasing stock levels with those of stock use, and in the past advocated utilizing flexible surge stocks to reduce pressure on the market in minor supply disruptions.

II. Essential Facts:

At the February 26 meeting of the IEA Governing Board, the U.S. delegation successfully won IEA support for remanding all stock issues to one of the IEA subgroups for further consideration, where we hope to discourage further stock use initiatives. At the same meeting, the United States successfully eliminated the stock issue as a topic for the IEA Ministerial in May. While we continue to support high levels of oil stocks we remain strongly opposed to discussion which would link stock levels and stock use.

III. Talking Points

Criticism: Relatively minor oil disruptions can have dramatic consequences for individual countries' supply positions and for over all price levels. Nonetheless there is no system which addresses stock management in these situations.

Response: The U.S. has continuously stressed that primary reliance on the market together with high levels of strategic stocks for discretionary national use are the best means of dealing with relatively minor oil disruptions. We do not believe that governments should interfere with the operations of the market.

Criticism: Supply interruptions similar to those of 1979, may be beyond the resources of private oil stocks for an individual country, and yet be below the level that would trigger the IEA sharing system.

Counterpoint: We believe the market is best able to deal with such minor supply disruptions and that government interference would exacerbate the shortfall.

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Oil Price Trends/Outlook

I. Issue

- Recent decline in world crude oil and refined product prices.
- The outlook for oil prices in the future.

II. Essential Facts

The world oil market has been extremely weak in 1982. Oil consumption has continued its steep decline which began in 1979. At the same time, oil exporting countries have been producing more oil than they could easily sell at official prices. The resulting over-supply has put pressure on prices, forcing oil producers either to give official and/or unofficial price cuts as most non-OPEC and some OPEC oil exporters have done, or to cut production as OPEC did beginning April 1, 1982.

The decline in oil prices can be attributed to both a long-term, essentially irreversible trend toward a more efficient utilization of energy and non-oil alternatives and a cyclical downturn in the economic performance in the industrialized countries. The U.S. position is that the upturn in economic performance beginning later this year is unlikely to create upward price pressure. Lower oil consumption has resulted not only from OPEC's past overpricing practices, but also from U.S. decontrol, improved energy efficiency and greater use of non-oil alternatives such as coal and nuclear. In the absence of an unexpected supply disruption, there should be little or no upward pressure on real oil prices for the next several years.

III. Talking Points

Point: Low economic activity has been primarily responsible for the decline in oil consumption. Consequently, oil consumption will increase with an upturn in the economy thereby renewing upward pressure on prices.

Counterpoint: Past overpricing of oil by OPEC and this Administration's reinforcement of market forces through decontrol of crude oil prices and deregulation of the U.S. oil industry have been the driving forces behind the trend toward greater efficiency in energy usage and uses of alternatives to oil in the United States. This Administration's market-oriented policies will offer American consumers the proper price incentives to continue to become more efficient in their use of energy. This process will also receive a boost from Administration policies to stimulate economic recovery.

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Natural Gas - Pricing and Supplies

I. Issue

- Deregulation of U.S. wellhead natural gas prices.
- European dependence on Soviet gas imports.

II. Essential Facts

The European Community is concerned that the United States may not follow through on its commitment to the accelerated deregulation of domestic natural gas prices. They fear that continued controls will increase U.S. demand and reduce production and force the United States to draw more heavily on international oil and gas markets. This concern has been heightened by the decision to defer legislation to accelerate natural gas deregulation.

Soviet and OPEC gas currently account for less than 15 percent of European gas supplies; by 1990 Soviet and OPEC gas could contribute as much as 35-40 percent of supply, based on contracts that are currently under negotiation. The United States is concerned that the Soviets might use this leverage to try to win economic and political concessions from Europe.

The U.S. position is to encourage the Europeans to develop alternative sources, especially new Norwegian gas supplies and African LNG. The United States would like to demonstrate that the security provided by alternative sources outweighs any additional cost.

III. Talking Points

Point: The U.S. Administration appears to have reconsidered its commitment to proceed with deregulation of natural gas prices.

Counterpoint: Due to an extremely heavy legislative calendar, we were forced to defer introduction of legislation to modify and improve the manner in which the Natural Gas Policy Act achieves deregulation of the wellhead price of natural gas. We remain firmly committed to the deregulation of the pricing of natural gas.

Point: Natural gas from the Soviet Union provides Europe with a reasonably priced source of energy to use in the reduction of dependence on Middle East oil.

Counterpoint: In estimating the cost of gas, Europe must consider the cost, in terms of their supply security, of dependence on the Soviet Union. More consideration should be given to the development of secure sources of gas supply such as gas from Norway.

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NUCLEAR ENERGY

I. ISSUE

Strong support from Summit leaders of commercial nuclear power as an alternative to reliance on insecure oil would help alleviate some of the problems associated with increased nuclear energy use. One major public concern is waste management which could be specifically addressed in the context of increased international technical cooperation.

II. ESSENTIAL FACTS

The US nuclear industry has experienced cancellation of some 90 reactors since 1978 and has no current prospects for new domestic orders. The major US problems are: 1) reduced rate of growth and reduced forecasts of future requirements of electricity demand; 2) utility financial problems; 3) burdensome regulations and licensing delays; and 4) failure to resolve the waste management issue.

Most Western countries, with the exception of France, are experiencing similar reductions in planned nuclear growth, although not necessarily for all of the same reasons. In particular, all Western countries have some degree of a public perception problem associated with radioactive waste disposal. Most technical experts would agree that the technology for such disposal in a safe manner is in hand, but the political and institutional decisions necessary to implement it have not been made. Given this situation, nuclear energy prospects in these countries would undoubtedly be enhanced and confidence renewed if Heads of State made a strong statement in support of nuclear energy. In the United States, Federal legislation will assure a safe, effective solution for the disposal of nuclear waste at the earliest practicable time. I have urged early consideration by both Houses of Congress and prompt enactment of legislation that will allow us to move ahead and deal with this issue in a timely and responsible manner.

III. TALKING POINTS

Point: France may press for a stronger pro-nuclear statement.

Response: Progress in waste management legislation is being made. On April 29, 1982, the Senate passed a comprehensive waste management bill. We are strongly supporting and encouraging similar action by the House.

It is important that all OECD countries move ahead with their programs to minimize future demands on insecure oil and gas sources. We should welcome the attention being directed toward this matter within the NEA.

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I. ISSUE

Consistent with our belief that coal is key to reducing the industrialized countries' dependence on insecure sources of energy supplies, the U.S. objective is to stress actions necessary to promote coal use, production, and trade. These actions include: (1) the signing of long-term contracts to induce investment in new mines, rail transportation, and new port capacity and (2) allowing the operation of market forces by reducing and/or eliminating trade and price barriers which restrict coal imports.

II. ESSENTIAL FACTORS

The economic recession coupled with the soft oil market have narrowed the price differential between coal and oil, temporarily deflating coal demand. In addition, some Summit countries still pursue trade policies which restrict coal imports, resulting in continued dependence on oil. For example, coal production in the UK and Germany is subsidized. Germany restricts imports of coal from non-EC countries by quotas and the UK through a "Buy National" policy. These events threaten to stall or even reverse the progress made to date, slowing the shift to alternatives, discouraging investment necessary for structural change, and jeopardizing the future supply security. The IEA doubts that the Venice commitment to double coal production and use can now be met.

The President's Coal Export Policy Statement illustrates the U.S. commitment to increase coal production, use, and trade. While our Summit partners have dramatically increased their use of steam coal in the last several years, more could be done to facilitate their use of coal for the long term.

III. TALKING POINTS

COAL IS A RELIABLE, ECONOMICAL SOURCE OF ENERGY AVAILABLE IN QUANTITY FROM SECURE WESTERN SOURCES. WE SHOULD ALL BE SEEKING TO ALLOW COAL TO REPLACE AS MUCH OIL AND GAS AS POSSIBLE, CONSISTENT WITH FORCES IN WORLD MARKETS.

THE UNITED STATES IS THE WORLD'S LARGEST COAL EXPORTER AND CAN SUPPLY ENOUGH COAL TO MEET GROWTH IN WEST EUROPEAN AND JAPANESE ENERGY DEMAND WELL INTO THE NEXT CENTURY.

Criticism: If the U.S. wishes to increase coal exports, it should expedite port development and inland transportation systems to make prices more competitive and reduce bottlenecks.

Response: U.S. private industry is in the process of developing port facilities, with 144.5 million tons per annum of additional capacity currently under construction. Moreover, the railroads have developed an advanced ship reservation system whereby vessels can preregister for their place in line and loading dates. However, firm long-term commitments from foreign buyers are necessary in order to create a market environment conducive to continued investment in necessary facilities.

Criticism: U.S. harbors should be dredged to accommodate larger vessels.

Response: Legislation is currently before the U.S. Congress to address the issue of port dredging. Expansion of handling capacity, however, has first priority.

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